PAYROLL BRIEFING

EMPLOYER NATIONAL INSURANCE CONTRIBUTIONS CHANGES WITH EFFECT FROM 6 APRIL 2025

February 2025

Headline Changes

During her budget speech on 30 October 2024, the chancellor, Rachel Reeves, announced four changes in connection with Employer National Insurance Contributions ("NIC"). These changes, which come into effect on 6 April 2025, are summarised as follows:

1. The Employer NIC rate will increase from 13.8% to 15%;
2. The Secondary Threshold, being the rate at which employer NIC starts to be paid per employee, will decrease from £9,100 per annum to £5,000 per annum;
3. The Employment Allowance, being the amount that can be deducted by eligible employers from their Employer NIC liability, will increase from £5,000 per annum to £10,500 per annum;
4. The criteria for the employment allowance will change by the removal of the eligibility cap of the previous tax year's Employer NIC bill of £100,000.

What Does This Mean in Practice

On the basis that the overall aim of the budget was to raise additional taxes for the Government to fill the "black hole", the impact of these changes is highly likely to mean that the vast majority of employers will face an additional financial burden from the next tax year.

Taking each of the above in turn:

1. Whenever Employer NIC is being paid, the rate will be 1.2% higher.
2. For each employee who earns more than £9,100 per annum, and assuming a relatively consistent earning per pay period, an employer will be paying 15% more on £4,100 per annum i.e. £615 per annum.
3. For those currently entitled to the Employment Allowance, there will be an overall reduction in the Employer NIC paid of £5,500, assuming their total Employer NIC liability for the year is in excess of £10,500. If the liability to Employer NIC is lower, there will be relief for the full liability.

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4. The majority of employers will now be entitled to the Employment Allowance, thereby reducing the Employer NIC liability by up to £10,500 for those previously ineligible.

Eligibility for the Employment Allowance

At present there has been no announcement to indicate that the eligibility rules have changed, except to remove the cap of £100,000. Therefore the following continue to apply for you to be able to claim the allowance:

1. You are registered as an employer and employ staff
2. You are a business or charity, which includes community amateur sports clubs
3. You employ a care or support worker
4. You are a company that employs only directors, where two or more directors earn more than the Secondary Threshold for Class 1 NIC.

Those employers who cannot claim the Employment Allowance continue to be:

1. A public body or business doing more than half of their work in the public sector, unless they are charities
2. Employers whose earnings come within the IR35 reporting regime
3. Employers whose employees are for personal, household or domestic work, such as a nanny or gardener
4. A single director company with no other employees.

Planning Opportunities

The main way to mitigate the increased Employer's NIC burden is to implement salary sacrifice arrangements. This is a very effective way of saving Employer's NIC for certain benefits, such as pension contributions, cycle to work and electric cars. In summary, an employee sacrifices part of their salary for one of these benefits with the result that Employer's NICs are saved. Further details as to how these schemes work, can be found here:

Recent Payroll Related Changes.

In addition, employers may wish to introduce an equity based incentive, such as an Enterprise Management Incentive (EMI) scheme, which is a discretionary share option scheme aimed at smaller companies. This is a tax efficient and flexible way to reward employees and can be made available to all employees or selected employees. Assuming the rules are followed, there is no income tax or national insurance payable, either when the option is granted or exercised.

As a one off saving, employers can consider when remuneration is paid. Care needs to be exercised when this is undertaken, such that it is not considered as anti-avoidance, so the payment of April salaries, for example, in March will not work. However, if annual bonuses are paid, sometimes in March and sometimes in April, depending on when the employer's results have been finalised, it is possible there will be a tax saving of 1.2% if the results are accelerated to enable any bonuses to be paid in March.

Conclusions

Except in a very few number of cases, the changes announced in the Budget relating to employer NIC will result in a higher cost for employers. It is important that employers budget for the increase and ensure that they will be able to meet this additional liability, together with other rises announced in the budget, such as the increase to the National Minimum Wage.

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